

City of Beverly

Financial Forecast

FY 2011 to FY 2013

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**City of Beverly
Financial Forecast
FY 2011 – FY 2013**

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Executive Summary

This forecast represents the work of the Forecasting Committee, a committee composed of councilors, school committee members and citizens. The committee receives staff support and analysis from the director of finance, the school director of finance and the council's independent budget/management analyst.

It is the committee's long-term goal to develop a financial planning process that assesses future financial implications of current and proposed policies, programs and assumptions and recommend appropriate long-term options. However at the present time for various factors the city's finances are at a point that requires immediate attention and decision making to address FY 11's \$3.7 million projected gap between revenues and expenditures. This forecast focuses on the three year period of FY 11 to FY 13 in order to provide policy makers, citizens and municipal and school officials with an understanding of the immediate and multi year challenges that the City faces.

The purpose of the forecast was to determine the capacity of the City's revenue base to fund the current programs and services of the city and the school system as well as to fund debt service, insurances and assessments from FY 11 to FY 13.

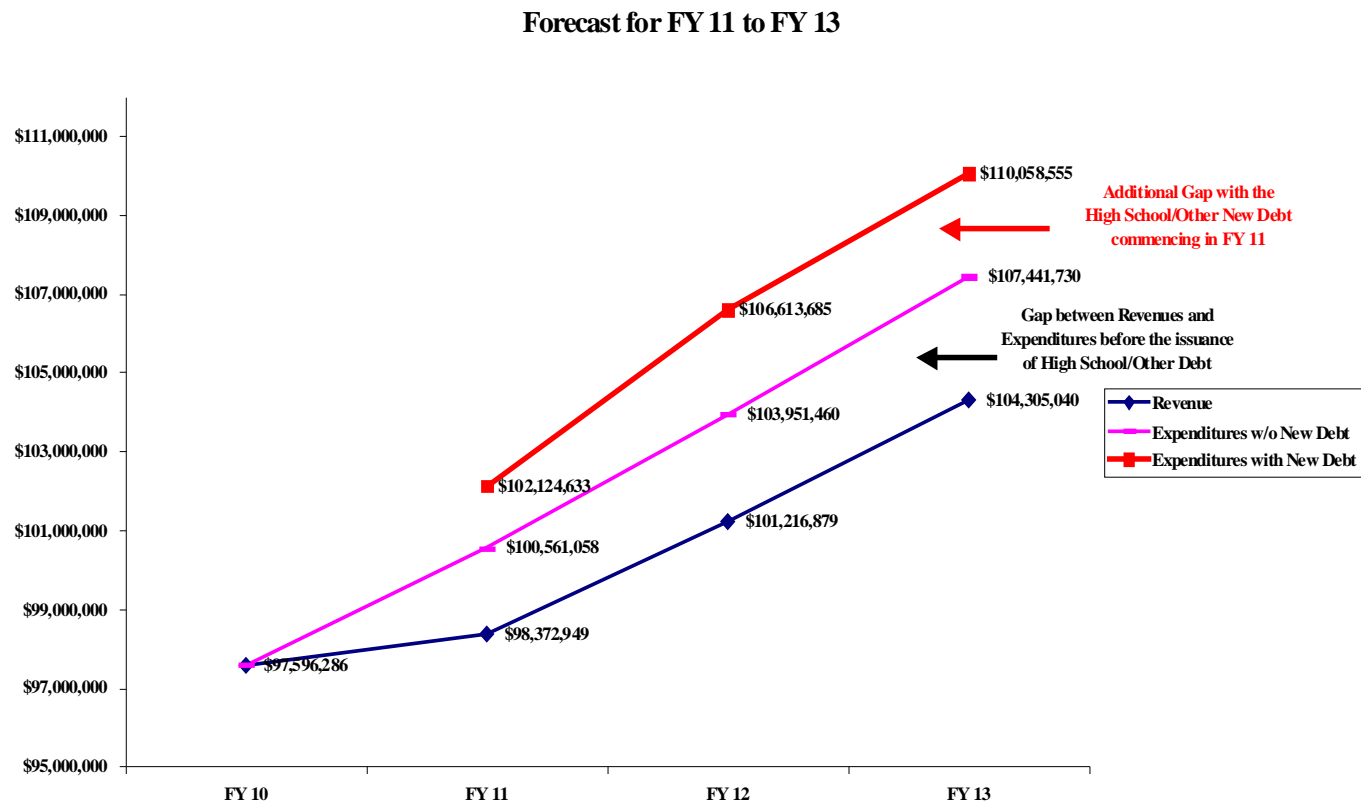
In brief, the City's revenue base is comprised of the property tax, state aid, motor vehicle excise tax, local receipts, interest income and some inter fund transfers. The principal growth revenue over the forecast period will be the property tax; state aid has declined significantly and is projected to continue to decline in FY 11 due to the fiscal crisis at the state level and other revenues will hold their own and remain constant, at best, based on economic conditions and/or actual historical experience. The City's revenue forecast and all revenue assumptions are documented in *Section I*.

The City's spending requirements have been forecasted based on current programs and services and based on the continuation of the current mix and number of positions in all municipal departments as well as in the school department. This forecast assumes a 2% wage increase for all employees each year of the forecast period. General expenses have been increased consistent with required increases for health insurance and property insurance, the retirement assessment, state and county assessments, and vocational school assessments. The forecast includes the required debt service payments for all issued debt and includes the impact of the debt issued on January 14, 2010 (principally for the high school). The forecast includes the projected impact of the issuance of additional authorized/unissued high school and other debt as it will FY 12 and FY 13. The municipal expenditure forecast and assumptions are detailed in *Section II*.

The school forecast is similar to the municipal forecast as it continues all current staffing and programs and services, the wage increase assumption is also 2%, additionally it includes step increases for teachers; there is provision for growth in special education tuition payments to other districts and collaboratives. The school forecast and assumptions are presented in *Section III*.

Based on a continuation of current municipal services, funding of the schools based on the forecasted needs presented, the impact of the new debt service and debt to be issued in 2011 and no other capital investment/initiatives in the forecast period, the city is projected to have deficits in each year of the forecast period (FY 11 through FY 13). Specifically the revenue base as forecasted cannot sustain the current services, programs and policies of the city and the school department. Moreover the “gap” between the forecasted revenues and expenditures increases significantly with the addition of the new debt (for the high school and other projects/equipment) that was issued in part in January 2010 and the additional debt to be issued in 2011.

The graph below presents a picture of the forecasted gap between forecasted revenues and annual operating needs and then presents the additional gap with the issuance of the authorized/unissued debt. The specific numbers and summary of the projected financial picture is presented in *Section IV*.



In brief, the major “drivers” of the FY 11 gap are: collective bargaining increases, health insurance increases, annual increases in pension, vocational school and state assessments and by the funding of the FY 10 school operating expenses with carry over FY 09 funds and prepayment of FY 10 operating expenses that will not be repeated for FY 11. This is further exacerbated by the issuance of a portion of the high school debt in combination with the fact that the only revenue growth component is the tax levy and this revenue increase is significantly negated by the projected decline in state aid.

FY 12 and FY 13 are affected principally by the same operational increases, the next phase of issuance of high school debt service and the continued fact that the only real growth in the City’s revenues is the tax levy inclusive of new growth that cannot support the magnitude of expenditure growth.

Clearly, as state law requires, the City can only authorize an annual municipal budget, which has its revenue and expenditures in balance each year. The budget gap presented in this forecast is an identification of the parameters of the major policy decisions that will ultimately have to be made in order to secure balanced budgets. Policy decisions that can include or exclude a combination of: cuts in service, reductions in staff, reduction or curtailment of wage increases, implementation of greater employee share of health insurance, or permanent or debt exclusion overrides among others. A listing of policy options is presented in *Section V*.

Our report includes a *Glossary* of terms and municipal finance terms to assist any reader of this document. We have also presented various data, tables and charts in the *Appendix*.

I. Revenue Forecast and Assumptions

I. Revenue Forecast and Assumptions

The following are the committee's assumptions for each category of revenue. The Revenue Forecast for the next three years is presented on the last page of this *Section*.

Tax Levy and New Growth

The tax levy is the principal revenue for funding the city's general fund. It is also the revenue source that will provide the primary annual growth in each year of the five year forecast versus any other revenue category. The City of Beverly taxes to the maximum allowable tax levy and this forecast assumes continuation of this policy for each year of the forecast period.

The maximum allowable levy is comprised of the base levy from the prior fiscal year, increased by 2.5% pursuant to the provisions of Proposition 2½, plus a increase for "New Growth", which is then reduced by a provision for abatements and exemptions (overlay). Overlay is projected at .0066 of the tax levy each year of the forecast period, consistent with history.

Historically, over the past ten years the city has averaged an annual of \$950,000 in "New Growth" without the Cummings TIF. (Historical information is presented in *Appendix A*). Based on the softening in the economy as well trends statewide in declines in "New Growth" and the absence of any approved and executed major development agreements with timelines, the forecast assumes "New Growth" at \$ 850,000 for FY 11 increasing to \$950,000 by FY 13.

State Aid

The city receives various types of state aid, the two major categories are: Chapter 70 (Education Aid) and Unrestricted Local Aid (formerly Lottery Aid and Additional Assistance). Historical information on state aid is presented in *Appendix A*.

Chapter 70 Aid: This is the city's single largest form of state aid. Municipalities in Massachusetts can receive Chapter 70 Aid based upon four different components of the revised formula enacted into law in FY 07: 1. Foundation Aid, 2. Down-payment Aid of the Fully Phased in Foundation Budget, 3. Per Pupil Minimum Increase Aid or 4. Growth Aid. Since Beverly spends more than Foundation Budget it does not qualify for the first two categories of Chapter 70 aid. Beverly did qualify for "Growth Aid" in FY 07 and FY 08. Since then the city

based on significant declines in enrollment is simply a “per pupil minimum increased community” which is simply the number of students multiplied by \$50.

The above factors do not mean that Beverly will receive any increases in Chapter 70 due to the state’s financial crisis. The situation is simply for FY 10 the state had to use \$168 million of federal stimulus to bring many Massachusetts communities to Foundation Budget (not applicable to Beverly as Beverly is above Foundation). Moreover in the last 60 days of FY 09 the state realized it could not make its last quarter Chapter 70 payments and then used \$412 million of federal stimulus funds to make FY 09 “whole”.

Based upon the state’s financial crisis, the use of so much of the federal stimulus to fund FY 10 and to retroactively fund FY 09 and the current availability of only \$100 million of stimulus funds for FY 11 to bring communities to foundation budget (Beverly is above foundation) and the state’s other needs, this forecast projects a 10% loss in Chapter 70 aid for FY 11. If Chapter 70 (per se) is not cut then Unrestricted Local Aid, discussed below, would likely be cut greater than 10%. For reference, *Appendix B* shows the forecasted “Gap” for FY 11 to FY 13 with no reduction in state aid and only a 5% reduction in aid.

Unrestricted Local Aid: In FY 10 the Governor combined the two former categories of state aid (Lottery Aid and Additional Assistance) into a new category called Unrestricted Local Aid. The reductions in aid in FY 09 and FY 10 were significant for Beverly as Beverly was a community that received Additional Assistance (many communities did not receive this category of aid) and as such was a community with one of the greatest “cuts” in aid as a % of prior years’ aid.

The state is overall financial crisis as a function of the economy and other issues will in all likelihood as predicted by many budget watchdogs such as the Mass. Taxpayers Foundation present increasing financial pressures for municipalities for several years. This forecast projects a 10% loss in aid for FY 11. It holds that level of aid constant for FY 12 and FY 13. For reference, *Appendix B* shows the forecasted “Gap” for FY 11 to FY 13 with no reduction in state aid and only a 5% reduction in aid.

Other State Aid: There are smaller categories of state aid including veteran’s benefits reimbursements and reimbursements for exemptions for the elderly, blind and surviving spouses. Veterans’ benefits reimbursements are increased at 15% based on the economy and more requests for these benefits and the state’s obligation to reimburse. The other categories are held constant.

School Construction Reimbursement - The state's reimbursement for the elementary schools is presented in the forecasted consistent with their annual payment and the forecast shows on a separate line the additional reimbursement due the city as a result of school construction audits. It is important to note that there is no reimbursement presented for the high school as only the local share of the debt service is presented on the expenditure side.

Motor Vehicle (MVX) and Other Excise:

The city has had declines in recent years in MVX collections. This is principally due to the softening in car sales. The city also collects approximately \$30,000 each year from boat and hotel taxes.

Based on the softening in the economy and the risk that residents may keep their vehicles for greater periods of time instead of replacing them, the committee is forecasting \$3,650,000 of MVX and Other Excise for each year of the forecast period. Historical MVX revenue history is presented in *Appendix A*.

Local Receipts

This category of revenue includes licenses and permits, departmental revenues, rental income, payments in lieu of taxes, fines and penalties on interest on taxes. Over the past five fiscal years there have been changes in various sub categories of fees, licenses etc. However, overall each year the city has collected in the range of \$2.9 million for total local receipts. The forecast assumes annual collections of \$2.9 million in FY 11 and FY 12 with a small increase to \$3.1 million by FY 13.. Historical local receipts revenue history is presented in *Appendix A*.

Interest Income

The city has normally earned less than \$355,000 in interest income based on internal financing of capital projects and minimal levels of "cash" for investment. This forecast assumes annual interest income of \$355,000 through FY 13.

Medicaid and Medicare D

Medicaid revenue is revenue to the city's general fund and administered by the school department, this source of revenue has declined by \$250,000 over the past two years. This forecast assumes annual reimbursements of \$475,000 based on the recent losses in this category and the school department's expectation that \$475,000 is a reasonable estimate. Medicare D is forecasted at \$250,000 consistent with history.

Other Financing Sources

The general fund budget each year is supported by "non-revenues" called "Other Financing Sources". There are two categories: 1.) voted transfers from certified fund balances and 2.) transfers from enterprise funds for indirect costs associated with the enterprise that are budgeted in the general fund (management and support staff, retirement costs and health insurance).

The first category is voted transfers by the council from certified fund balances in three funds of the city: the parking violations fund, the parking meter receipts fund and the cemetery perpetual care fund. Historically these voted balances total \$355,000. This forecast continues the same amount of transfers from these trust and special revenue funds.

The second category representing transfers from the water, sewer, airport, recreation and senior citizen enterprise funds are forecasted to increase and the assumptions are consistent with assumptions presented in the expenditure side of this presentation. Specifically, transfers for reimbursement of wages are increased at 2.5%, transfers for expense reimbursement are increased at 2%; those for health insurance are increased at 9% and those for pension/share of retirement assessment are increased at 4.5%.

**City of Beverly - General Fund
Revenue Forecast - FY 11 to FY 13**

		<u>FORECAST:</u>			
<u>Line:</u>		FY 10 Final Revenue Budget	FY 11 Forecast	FY 12 Forecast	FY 13 Forecast
REVENUES:					
A	PROPERTY TAX: PRIOR FY LEVY LIMIT	\$70,455,889	\$73,125,073	\$75,803,200	\$78,598,280
B	Plus: 2 1/2% Increase	\$1,761,397	\$1,828,127	\$1,895,080	\$1,964,957
C	Plus: "New Growth"	\$964,222	\$850,000	\$900,000	\$950,000
	Adjustment:	-\$56,435			
D	LEVY	\$73,125,073	\$75,803,200	\$78,598,280	\$81,513,237
E	Less: Overlay (Provision for Abatements)	-\$373,167	-\$500,301	-\$518,749	-\$537,987
F	TAX REVENUE NET OF OVERLAY	\$72,751,906	\$75,302,899	\$78,079,531	\$80,975,250
G	STATE AID*	\$12,617,815	\$11,417,069	\$11,445,405	\$11,477,992
	<i>FY 10 Per Final Cherry Sheet</i>				
H	School Construction Reimb	\$1,943,054	\$1,943,054	\$1,943,054	\$1,943,054
I	Add. School Construc. Reimb. (Per Audit)	\$577,774	\$577,757	\$577,757	\$577,757
J	Medicaid	\$750,000	\$475,000	\$475,000	\$475,000
K	Medicare D	\$255,000	\$250,000	\$250,000	\$250,000
L	Motor Vehicle, Boat, Hotel Excise	\$3,745,000	\$3,645,000	\$3,650,000	\$3,650,000
M	Local Receipts	\$2,936,664	\$2,936,664	\$2,936,664	\$3,100,000
N	Interest Income	\$325,000	\$300,000	\$300,000	\$300,000
O	Transfers from Enterprise Funds	\$1,099,073	\$1,132,045	\$1,166,007	\$1,200,987
P	Other Available Funds	\$355,000	\$355,000	\$355,000	\$355,000
Q	Free Cash	\$240,000			
R	Use of FY 10 Free Cash for FY 09 Snow/Ice Deficit	\$815,507			
S	Total Projected Revenue	\$98,411,793	\$98,334,488	\$101,178,418	\$104,305,040
	without Snow and Ice	\$97,596,286			
	Annual Change in Revenue		-\$77,305	\$2,843,930	\$3,126,621
	Annual Change w/o Snow and Ice		\$738,202	\$2,843,930	\$3,126,621

II. Expenditure Forecast and Assumptions – Municipal Budget

II. Expenditure Forecast and Assumptions - Municipal Budget

This section presents the specific assumptions for each category of municipal expenditures and the overall municipal forecast is presented on the last page of this *Section*.

Salaries and Wages: The basic assumption in the forecast is that this is a current service forecast and it assumes that all employees/positions in each city function/department will continue to be employed and to provide the service. The salary and wage assumption for the forecast period is that each employee/position receives a 2% annual increase as of July 1 of each fiscal year. Most municipal employees are at the top step and no additional funds are forecasted for step increases, there will also be some turnover and more senior personnel may be replaced by a successor who makes a lower wage. Generally this turnover and step progression is assumed to balance out on the municipal side of the budget for forecasting purposes.

Expenses: The city has many contracts for services, procures various supplies and small equipment, and makes payments to various professional associations and the like across all municipal functions and departments. This forecast takes the total FY 10 expense budget for all departments and increases this cost by 2% for each year of the forecast period.

Capital Outlay: The annual city budget provides for \$577,394 in capital replacement in FY 10, principally for public works equipment and vehicles. Also, it was intended that much less would be expended in future years as one way of providing capacity for the high school debt service. This forecast provides a very limited provision of \$100,000 for capital/equipment replacement each year. Other than this provision, the forecast includes no funding for replacement of capital items or capital improvements.

Property Casualty Insurance: This is insurance for all buildings and facilities. This insurance has consistently increased in the past and this forecast assumes annual increases of 5%.

Sanitation: This forecast maintains a constant amount in the general fund for sanitation/trash for the five years of the forecast. This represents the subsidy of the general fund to the sanitation enterprise fund. If the cost for trash collection and disposal increase, there is a surplus within the enterprise fund that can be utilized to defray the increases. The removal of the general fund subsidy to the sanitation fund would be a policy decision.

Retirement Assessment: The city is one of two members of the Beverly Contributory Retirement System (BCRS); the other member is the Beverly Housing Authority. Each year in compliance with Governmental Accounting Standards Board (GASB) requirements the BCRS is required to have an actuarial valuation to determine based on investment performance, life spans of employees, impacts of early retirement incentives the funding schedule to fully fund the system in compliance with state law. This forecast includes the annual appropriation required from the city each year from FY 11 to FY 13 consistent with the current actuarial funding schedule.

The BCRS's updated actuarial funding schedule will be prepared and released in the next few months. It is important to note that the assets of the BCRS are invested in the state's PRIT fund, which has experienced significant losses based upon the downturn in financial markets similar to the losses of other pension funds/systems. Currently the state legislature is considering legislation to extend the funding schedule by ten years to 2040 in order to allow an extended time frame for fully funding this liability. There is a very strong likelihood that this legislation will pass. The passage of this legislation will provide for more reasonable annual increases in the annual retirement assessment vs. if no time extension was granted. It is important to note that it is highly unlikely that the annual increases will be less than those set forth in the current funding schedule. If anything they may increase somewhat over the current funding schedule. Again this forecast uses the current funding schedule.

Health Insurance: Health Insurance is one segment of all municipal and school budgets that has been escalating significantly over the past several years. This forecast since it represents the continuation of current services and current policies takes the full FY 10 appropriation for health insurance and increases it at 9% each year of the forecast period. As a note the health insurance cost for school employees is included in the school budget forecast and is factored up at the same increase of 9% per year.

The health insurance forecast makes no provision for post employment benefits. The city has had an actuarial valuation completed in FY 09 of its post employment benefits (other than pensions which are funded per an actuarial schedule).

Debt Service: The debt service included in the Municipal Expenditure Forecast on page and detailed in *Appendix C* presents: the debt service for all debt issued prior to 2010, the new debt service issued on January 14, 2010 primarily for the high school, the proforma debt service based on the authorized/unissued debt to be issued in one year (additional high school debt and some smaller projects) and it shows the proforma savings in FY 11 to FY 13 of a pending refinancing of some of the city's debt.

The city has a stabilization fund of \$550,000 for the high school debt; it is assumed that this will be applied to the total debt (off the top) vs. applied directly to the annual debt service of a specific year or small portions of the \$550,000 could be appropriated over several years to provide a small offset on debt payments.

It is important to note that this forecast does not include any proforma (new) debt service for any other capital improvements for the city's infrastructure or for the school department.

State and County Assessments: The city is assessed each year for such services as the Metropolitan Area Planning Council, Mosquito Control Projects, the MBTA, Essex County Sending Tuition, School Choice Sending Tuition and other services. Virtually every year the assessments increase in range of 2 to 4%. This forecast increases assessments at 2.5% based on historical experience.

Reserve for Unforeseen: This category provides a small reserve for unforeseen expenses during each fiscal year. This forecast provides a small reserve consistent with history.

Vocational School Assessment: The assessment increased by 19% in FY 10 based on the city's increased enrollment which not only increased but increased significantly more than the other member communities. Also the vocational school has been impacted by the lack of growth in Chapter 70 Aid and has had cuts in its regional transportation reimbursement. For FY 11 to FY 13 the assessment has been increased at 12% per year based on continued anticipated enrollment growth as well as the risk in that period of greater enrollment growth vis a vis the other member communities.

Workers Compensation, Payroll Tax, and Life Insurance: Overall these combined costs are increased at 5% for each year of the forecast.

City of Beverly

Municipal Expenditure Forecast: FY 11 to 13

		<u>FORECASTED:</u>		
	FY 10	FY 11	FY 12	FY 13
	Budget	Forecast	Forecast	Forecast
<i>EXPENDITURES:</i>				
SALARIES & WAGES	\$18,550,914	\$18,921,932	\$19,300,371	\$19,686,378
EXPENSES	\$5,113,030	\$5,215,291	\$5,319,596	\$5,425,988
CAPITAL OUTLAY	\$577,394	\$100,000	\$100,000	\$100,000
PROPERTYCASUALTY INSURANCE	\$410,000	\$430,500	\$452,025	\$474,626
SANITATION	\$615,750	\$615,750	\$615,750	\$615,750
HEALTH INSURANCE (Municipal Employees)	\$8,990,000	\$9,799,100	\$10,681,019	\$11,642,311
<i>DEBT SERVICE:</i>				
Debt Service (issued prior to Jan. 2010)	\$7,175,528	\$6,542,454	\$6,491,923	\$6,209,524
Long Term Debt Service (Issued January 14, 2010)		\$1,683,575	\$1,651,725	\$1,620,025
Proforma Debt Service to be Issued Next Year			\$1,080,500	\$1,056,800
Projected Future Year Savings of Refinancing		-\$120,000	-\$70,000	-\$60,000
RETIREMENT ASSESSMENT (Pensions)	\$7,116,560	\$7,444,572	\$7,782,317	\$8,136,394
WORKERS COMP, PAYROLL TAX, LIFE INS.	\$639,000	\$670,950	\$704,498	\$739,722
STATE and COUNTY ASSESSMENTS	\$1,922,523	\$1,970,586	\$2,019,851	\$2,070,347
RESERVE FOR UNFORESEEN	\$50,000	\$150,000	\$153,750	\$157,594
VOCATIONAL SCHOOL	\$1,876,871	\$2,102,096	\$2,354,347	\$2,636,869
Raising On Tax Rate for Stabilization Fund	\$550,000			
Total Projected Municipal Expenditures	\$53,587,570	\$55,526,805	\$58,637,672	\$60,512,328
<i>Change</i>		<i>\$1,939,235</i>	<i>\$3,110,867</i>	<i>\$1,874,656</i>

III. Expenditure Forecast and Assumptions – School Budget

III. School Budget Forecast and Assumptions

The committee's assumptions are presented below and the complete school budget forecast is presented on the last page of this *Section*. FY 10 shows the original appropriated budget as well as the revised budget for FY 10 with carryovers. It should also be noted that the Forecast for FY11 represents percentage increases based upon FY10 Revised Budget with the exception of the Buildings & Grounds Operating budget.

Salaries and Wages: The collective bargaining agreements for the various school unions were successfully negotiated with a 2% increase for all groups. This forecast includes 2% increase each year of the forecast period. This forecast also assumes that the continuation of all current staff providing today's programs and services. Additionally, this forecast includes the necessary funding for contract and step moves for teachers, which is based on historical data and trends. The same approach was also applied to substitutes, custodians, and non-instructional administration.

Buildings Expenses and Curriculum Expenses: Buildings budgets were slightly increased in FY10 based upon enrollment numbers. This forecast includes a 2% increase for each year after 2010.

Utilities: FY11 is forecast based on historical usage and cost data with a 2% increase.

School Committee: This category is forecasted to be level funded with the one exception of a 2% increase in costs associated with memberships.

Buildings and Grounds: Buildings and grounds were level funded for FY10 and FY11 with a 2% increase for each year thereafter.

Special Education Transportation: This forecast provides a 2% increase for salaries of transportation staff. The contractual services portion of transportation expense has been increased at 4% based on trends in this area.

Tuition: This forecast provides for a 4% increase in tuition costs based upon the recommendation of the Director of Pupil Personnel Services.

SPED Staff and Expenses: The salaried special education staff is increased at 2% for each year of the forecast period and SPED expenses; supplies and materials were increased at 2%.

Benefits: The health insurance element of this category has been increased at 9% consistent with the assumption for municipal employees' health insurance. FICA and unemployment however were only increased 2%, the same amount that was budgeted for salary increases.

Beverly Public Schools
Expenditure Forecast - FY 11 to FY 13

	<u>Appropriated Budget</u>	Revised Budget	<u>FORECAST:</u>		
<i>Expenditures:</i>	FY 2010	FY 2010	FY 2011	FY 2012	FY 2013
Salary and Wages:					
<i>Teachers</i>	\$15,020,413	\$15,281,126	\$15,586,749	\$15,898,483	\$16,216,453
<i>Special Ed + Aides</i>	\$4,119,787	\$4,306,730	\$4,392,865	\$4,480,722	\$4,570,336
<i>Admin + Principals</i>	\$2,349,602	\$2,387,436	\$2,435,185	\$2,478,263	\$2,524,528
<i>Non-Instructional</i>	\$2,651,831	\$2,671,425	\$2,724,854	\$2,714,153	\$2,768,436
<i>Custodial</i>	\$667,674	\$668,727	\$682,102	\$695,513	\$709,115
Building Budgets	\$739,260	\$850,067	\$693,894	\$707,600	\$721,580
Utilities	\$1,018,515	\$1,018,785	\$1,039,161	\$1,058,270	\$1,077,762
District Curriculum	\$390,855	\$469,692	\$479,086	\$478,471	\$488,040
School Committee	\$31,400	\$31,400	\$32,028	\$31,784	\$31,981
Buildings and Grounds	\$972,970	\$1,105,997	\$971,826	\$991,262	\$1,011,088
Transportation:					
<i>Regular</i>	\$870,730	\$889,617	\$907,409	\$925,558	\$944,069
<i>Sped</i>	\$1,010,215	\$1,042,502	\$1,063,352	\$1,093,314	\$1,124,224
SPED Tuition	\$4,522,126	\$4,783,466	\$4,974,805	\$5,173,797	\$5,380,749
SPED Staff	\$1,610,338	\$1,701,825	\$1,735,862	\$1,770,579	\$1,805,990
SPED Expenses	\$226,027	\$239,722	\$244,516	\$248,734	\$253,035
Benefits	\$6,806,156	\$6,588,296	\$7,127,773	\$7,704,698	\$8,348,131
Admin. Expenses	\$335,465	\$432,150	\$440,793	\$446,631	\$455,712
Steps/Column/M + 60	\$249,352	\$38,628	\$641,250	\$645,375	\$649,583
Substitutes	\$416,000	\$416,000	\$424,320	\$432,806	\$441,463
TOTAL BUDGET	\$44,008,716	\$44,923,591	\$46,597,828	\$47,976,013	\$49,522,275
<i>Change in Appropriated:</i>			\$2,589,112	\$1,378,185	\$1,546,262
			5.9%	3.0%	3.2%

IV. In Brief: The General Fund FY 11 to F 13 Forecast

IV. In Brief: The General Fund FY 11 to FY 13 Forecast

The City has a structural financial challenge in that the annual incremental revenue increase cannot cover the annual growth in spending for its operations and for new debt service for the local share of the high school project. This structural deficit will continue into the foreseeable future. This forecast requires significant policy decisions to reduce spending; in other words a plan to allow for community input and participation to determine service reductions most likely in combination with new revenue decisions.

It is essential to recognize that resolving the FY 11 projected deficit does not equate to addressing the chronic and real problem: the annual structural deficit: the inability of the revenues to sustain current services.

Financial Forecast Summary:

	FY 10	FY 11	FY 12	FY 13
Total Forecasted Revenues and Other Financing Sources	\$97,596,286	\$98,372,949	\$101,216,879	\$104,305,040
LESS: Municipal Expenditures (includes pre 2010 debt)	53,587,570	53,963,230	55,975,447	57,895,503
LESS: School Expenditures (General Fund Appropriation)	44,008,716	46,597,828	47,976,013	49,546,227
"Gap": The Excess of Expenditure over Revenues	\$0	(\$2,188,109)	(\$2,734,581)	(\$3,136,690)
LESS: New Debt Service (High School and Other)		\$1,563,575	\$2,662,225	\$2,616,825
Total Projected Annual "Gap" between Revenues and and all forecasted expenditures including New Debt	\$0	(\$3,751,684)	(\$5,396,806)	(\$5,753,515)
Projected Cumulative "Gap"		(\$3,751,684)	(\$9,148,490)	(\$14,902,005)

Note: The Projected "Gap" with no loss in State Aid for FY 11 is shown in Appendix B; the Appendix also shows "Gap" with a 5% loss in Aid for FY 11.

V. Potential Policy Options for Consideration

V. Potential Policy Options for Consideration

The city's policy makers have various policy options to address the projected "gaps" between revenues and expenditures in the future years. The following are options that have been implemented in many other cities and towns, some will increase your revenues, others will reduce/mitigate the projected increase in costs:

- Cut current city services/programs/staff providing the respective service/program
- Cut current school services/programs/staff providing the respective service/program
- Close specific facilities
- Negotiate curtailment of increases in wages for July 1, 2010
- Control labor costs; control COLAs
- Consolidate school/city services with the specific goal of cost savings
- Require department heads (municipal and school) to present plan each year for cost reductions
- Consider regionalization of certain services
- Increase the employees' share of health insurance
- Develop a health insurance plan equivalent to the Join the Commonwealth's Health Insurance Plan as administered by the Group Insurance Commission (GIC)

- Reduce or eliminate the general fund subsidy to the sanitation/trash enterprise fund (would require change to current ordinance).
- Adopt the local option meals tax
- Determine a plan for overrides:
 - Permanent operating
 - Debt exclusion and/or
 - Capital exclusions
- Implement more Payment in lieu of Tax (PILOT) agreements with tax exempt organizations in the city
- Generate non- recurring revenues from sale of city and school assets
- Increase new growth (beyond historical annual levels)

Glossary

Glossary of Terms

Abatement – A complete or partial cancellation of a tax imposed by a municipality. The local Board of Assessors administers abatements.

Adopted Budget – The final annual budget as approved by the city council.

Appropriation –an authorization granted by a legislative body (council) to make expenditures and incur obligations for specific purposes and which is usually limited in amount and to the time during which it may be expended.

Appropriations Order – the order for vote by which appropriations are enacted into law by the legislative body. This gives legal authority to spend.

Assessed Valuation – a valuation set upon real estate or other property by a government as a basis for levying taxes. In Massachusetts, assessed valuation is based on “full and fair cash value”; the amount a willing buyer would pay a willing seller in the open market.

Available Funds- these funds are established through previous appropriations or results of favorable conditions. These may be appropriated to meet emergency or unforeseen expenses,

large one time or capital expenditures. Examples: free cash, stabilization fund, overlay surplus, water surplus etc.

Bond Anticipation Notes (BANs) - Notes issued in anticipation of the later issuance of bonds.

Budget –a plan of financial operation containing an estimate of proposed expenditures for a single fiscal year (July 1 to June 30) and the proposed means of financing them.

Capital expenditures/improvements – these are items generally found in the capital budget such as construction costs, site development, major repairs or replacement of capital facilities and public ways.

Capital expenditure exclusion – A one-year increase in the levy limit approved by the voters in a referendum for the purpose of funding a capital project. The referendum question defines the project, states the maximum amount of the exclusion and specifies the fiscal year in which the payment will occur.

Chapter 70 Aid – This is the Commonwealth’s program for ensuring adequate and equitable K-12 education funding, since its original enactment as part of the 1993 education reform law. The formula has a required local contribution from each city and town. The intent was that richer communities would be

asked to contribute more and conversely would receive less Chapter 70 aid than poorer communities. Based on the FY 2004 changes to the formula, there are four sub components of aid that determine the annual increases in funding to the community/school district. They are: foundation aid, down payment aid, growth aid and \$50 per pupil minimum aid.

Character of Expenditure – a grouping of expenditures on the basis of the nature of goods or services purchased as follows:

Personal services – direct payment to employees of wages and salaries through normal payroll procedures.

Non-personal services – payment of ordinary and recurring operating expenses not otherwise classified

Capital Outlay – payments of a relatively recurring nature to acquire or replace equipment for normal operating purposes, normally with a life expectancy of one to five years.

Cherry Sheet – A form showing all state charges and reimbursements to the city as certified by the state director of accounts. Years ago this document was printed on cherry colored paper.

Collective Bargaining – the negotiations between an employer and union representative regarding wages, hours and working conditions.

Debt Exclusion – A temporary increase in the levy limit approved by the voters in a referendum for the purpose of funding a capital project by means of debt. Both principal and interest are excluded from the levy limit until the debt is retired.

Debt Limit – the maximum amount of debt that a municipality may have authorized for qualified purposes under state and self imposed ceilings

Debt Service – the cost (usually stated in annual terms) of the principal retirement and interest of any particular issue.

Encumbrances – obligations in the form of a purchase order or contract, which are chargeable to an appropriation and for which that part of the appropriation is reserved. They cease to be an encumbrance when paid or when an actual liability for payment is recorded.

Enterprise Fund – A fund established to account for operations that are financed and operated in a manner similar to a private business enterprise. State law allows enterprises for water, sewer, solid waste, airports, hospitals, and transportation and recreation services. Both the costs and revenues of the enterprise are segregated from other finances of the town.

EQV – Equalized valuations present an estimate of fair cash value of all taxable property in each municipality as of January 1st of each year. The EQV is a measure of the relative property wealth in each city or town. Its purpose is to allow for comparisons of municipal property values at one point in time, adjusting for differences in local assessing practices and revaluation schedules.

Excess Levy Capacity – the difference between the levy limit and the amount of real and personal property taxes actually levied in a given year. Annually the council must be informed of excess levy capacity and evidence of such acknowledgment must be submitted to DOR when setting the tax rate.

Exclusions - Exclusions allow, by referendum vote, an increase in the amount of property taxes that a municipality may levy for a limited period of time and only for capital purposes. The revenue is in addition to the levy limit but it neither increases the levy limit nor becomes part of the base for calculating levy limits of future years.

Expenditures – the spending of money by municipality for programs and services within their approved budgets.

Fiscal Year – the state and all municipalities operate on a fiscal year, which begins on July 1 and ends on June 30. For example FY 2001 begins July 1, 2000 and ends on June 30, 2001.

Foundation Budget – the target set for each school district defining the minimum spending level necessary to provide an

adequate education for all students. The foundation budget calculations allocate fixed spending target amounts per pupil for teachers' salaries and benefits, support staff salaries and benefits, utilities, maintenance costs, books and equipment. These calculations are adjusted annually for inflation and also take into account the district's pupil characteristics and the regional labor market.

Free Cash – funds remaining from the operations of the previous fiscal year, which are certified by DOR's director of accounts as available for appropriation. Free cash when certified can only be spent via an appropriation of a city council, board of aldermen or town meeting.

Fund – an accounting entity with a self balancing set of accounts that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

General Fund – The general operating fund of the city. It includes revenues from taxation, general state aid, school aid, and all other financial resources that are not held for specific purposes. Expenditures from this fund may be for any purpose for which a municipality may legally appropriate funds. Enterprise fund money is not part of the General Fund.

General Obligation Bonds – bonds issued by a municipality, which are backed by the full faith and credit of its taxing authority.

Intergovernmental Revenue – revenue received from other governments (state, federal, county) in the form of grants, shared revenues and aid.

Levy – The total amount of real and personal property taxes assessed in a given year, referred to as “the levy”.

Levy Limit - the maximum amount a community can levy in a given year. The limit can grow each year by 2 and ½ % of the prior year’s levy limit, plus new growth and any overrides.

Local Aid – revenue allocated by the Commonwealth to municipalities. Estimates of local aid are transmitted to municipalities by the “Cherry Sheet”.

Local Receipts – locally generated revenues other than real and personal property taxes and excluding enterprise fund revenues. Examples include, motor vehicle excise, investment income, fees, rentals and charges.

Net School Spending – includes both school budget and municipal budget amounts attributable to education excluding long-term debt service, student transportation, school lunches and certain other specified school expenditures. A municipality’s NSS funding must equal or exceed the NSS requirement established annually by the Department of Education.

New Growth – The increased value in a given year of new development and other growth in the tax based that is not the result of revaluation. Included are physical additions or

improvements to taxable property, new personal property and new subdivision parcels and condominium conversions.

Operating Budget- the plan of proposed expenditure for personnel, supplies and other expense for the coming fiscal year.

Other amounts to be raised - amounts raised through taxation, but which are not appropriation items. Generally, these are locally generated expenditures (i.e. overlay, teacher pay deferral, deficits) as well as state and county charges.

Overlay – an account established annually to fund anticipated property tax abatements and exemptions in that year. The overlay reserve is not established by the normal appropriation processes, but rather is raised on the tax rate recapitulation sheet. If, at the end of a fiscal year, a balance remains in the reserve and the Assessor’s determine that no further claims are pending, the amount remaining may be re-appropriated for other purposes or closed to the general fund balance.

Override – A permanent increase in the levy limit approved by the voters in a referendum. The increase becomes part of the base for calculating levy limits of future years. An override ballot question requests funding for expenses that are expected to continue into the future. Overrides may be structured in any of three forms: a single ballot question stating a single purpose; a “pyramid” consisting of two or more questions stating the same purpose but different amounts of money in each question, or a “menu” of separate questions each stating a different purpose along with its related amount of money.

Policy: A definite course of action adopted after review of information and directed at the realization of goals.

Property Tax Levy – the amount a community can raise through the property tax. The levy can be any amount up to the levy limit plus exclusions.

Proposition 2 and ½ - A law that became effective on December 4, 1980. It provides that the tax levy cannot exceed 2 and ½% of the full and fair cash value (levy ceiling).

Reserve Fund – an amount set aside annually with the budget to provide a funding source for extraordinary and unforeseen expenditures. In a city, transfers from this fund may be voted by the city council upon recommendation by the mayor.

Stabilization fund – a fund from which any amount may be appropriated for any legal purpose. The aggregate of the fund shall not exceed ten percent of the city's equalized value and any interest shall be added to and become part of the fund. A two-thirds vote of the town meeting or city council is required to appropriate monies from the stabilization fund.

Tax Rate – the amount of tax stated in term of a unit of the tax base; for example \$14.8 per \$1,000 of assessed valuation of taxable property.

Unrestricted Local Aid - The category of aid introduced in FY 10 as the replacement to Lottery Aid and to Additional Assistance. This blended category was introduced based on extensive cuts to the two former categories of Aid. It is available for any purpose or activity of the general fund.

APPENDICES

- A. Historical Revenue Information**
 - A.1 10-Year History of New Growth and Overlay**
 - A.2 State Aid History**
 - A.3 Other Revenues**
- B. Forecasted Gap under 3 State Aid Scenarios:
10% Loss, 5% Loss and No Loss of Aid**
- C. Debt Service and Proforma Debt Service through FY 13**

New Growth and Overlay History

Appendix A.1

10 Year History of Actual New Growth and Overlay

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
New Growth	\$1,085,170	\$2,518,522	\$907,487	\$992,751	\$1,989,990	\$1,022,320	\$1,618,053	\$896,666	\$887,207	\$964,222
	<i>Note A</i>			<i>Note B</i>			<i>Note C</i>			

Notes:

A. Cummings TIF (Non-Recurring spurt in New Growth)

B. Extensive Personal Property of One Business

C. Final Cummings TIF (Non-Recurring spurt in New Growth)

Provision for Abatements/Exemptions:

Overlay	\$597,438	\$620,898	\$403,530	\$430,000	\$1,237,685	\$405,454	\$398,977	\$387,540	\$415,184	\$373,165
Tax Levy	\$47,948,568	\$51,667,914	\$53,879,222	\$56,214,897	\$59,590,981	\$62,133,784	\$65,286,741	\$67,855,110	\$70,392,586	\$73,125,075
Overlay as % of Levy	1.25%	1.20%	0.75%	0.76%	2.08%	0.65%	0.61%	0.57%	0.59%	0.51%

History of State Aid to General Fund - FY 05 to FY 10

Appendix A.2

	FY2005	FY2006	FY2007	FY2008	FY2009*	FY 2010
Education Programs:						
Chapter 70	6,107,219	6,332,869	6,612,472	6,901,558	7,254,770	7109675
School Transportation	0	0	0	0	0	
School Construction	1,943,054	0	0	0	0	
Retired Teachers' Pensions	0	0	0	0	0	
Tuition of State Wards	0	0	0	0	0	
Charter Tuition Assessment Reimbursement	6,702	0	53,456	15,532	74,049	45839
Charter School Capital Facility Reimbursement	0	0	0	0	0	
Sub-Total, All Education Programs	8,056,975	6,332,869	6,665,928	6,917,090	7,328,819	7,155,514
General Government Programs:						
Lottery	3,485,521	3,970,874	4,741,621	4,815,621	4,346,357	0
Additional Assistance	2,452,442	2,452,442	2,452,442	2,452,442	2,213,461	0
Unrestricted Local Aid						5145188
Highway Fund	0	0	0	0	0	
Local Share of Racing Taxes	0	0	0	0	0	
Regional Public Libraries	0	0	0	0	0	
Police Career Incentive	215,380	203,450	232,138	264,018	277,518	
Urban Renewal Projects	0	0	0	0	0	50041
Veterans Benefits	7,517	3,838	45,527	52,904	98,487	164269
Exempt: Vets, Blind Persons & Surv Spouses	49,600	50,232	45,609	80,923	84,455	127823
Exempt: Elderly	29,116	28,112	25,100	24,096	20,582	
State Owned Land	0	0	0	0	0	
Sub-Total, All General Government	6,239,576	6,708,948	7,542,437	7,690,004	7,040,860	5,487,321
Total Estimated Receipts	\$14,296,551	\$13,041,817	\$14,208,365	\$14,607,094	\$14,369,679	\$12,642,835

* FY 2009 reflects final FY 09 Aid after Mid Year Cuts to Additional Assistance and to Lottery
FY 2009 includes full Chapter 70 BUT it is critical to note that the state budget could
not honor payment of \$ 762,943 of FY 09's obligation due to crisis in state finances; the funds came to City but
through Federal Stimulus Funds (grant)

Historical Revenue Activity
Key Revenue Categories
Other than Property Tax and State Aid

Appendix A.3

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
MVX	\$4,260,252	\$3,994,430	\$3,781,799	\$3,924,811	\$4,093,728	\$4,574,980	\$3,963,706	\$4,110,619	\$3,858,394
Annual Change:		(265,822)	(212,631)	143,012	168,917	481,252	(611,274)	146,913	(252,225)

** FY10 is the Budgeted Number*

Local Receipts**	\$2,890,923	\$2,719,237	\$3,054,774	\$3,415,442	\$3,134,314	\$3,177,997	\$3,303,049	\$2,658,005
Annual Change:		-171,686	335,537	360,668	-281,128	43,683	125,052	-645,044

*** Local Receipts includes categories such as building permints, licenses, rents, fines, municipal lien certificates etc.*

Medicaid	\$291,524	\$664,191	\$571,130	\$489,891	\$478,379	\$575,986	\$870,161	\$630,915
Annual Change:		372,667	-93,061	-81,239	-11,512	97,607	294,175	-239,246

Forecasted "Gap" under 3 State Aid Scenarios

	FY 11	FY 12	FY 13
Gap with 10% Aid Cut in FY 11	(\$3,751,684)	(\$5,396,806)	(\$5,753,515)
Gap with 5% Aid Cut in FY 11	(\$3,139,041)	(\$4,784,163)	(\$5,140,872)
Gap with No Cut in Aid in FY 11	(\$2,526,298)	(\$4,171,420)	(\$4,528,129)

		City of Beverly Debt Service		
		2011	2012	2013
I	Debt Service (all issued prior to 2010)	\$6,542,454	\$6,491,923	\$6,209,524
II	Debt Issued on January 14, 2010:			
	High School \$20 million	<i>P</i> \$800,000	\$800,000	\$800,000
		<i>I</i> \$744,000	\$720,000	\$696,000
	Fire Department Vehicle	<i>P</i> \$35,000	\$35,000	\$30,000
	\$400,000	<i>I</i> \$13,050	\$12,000	\$10,950
	Purchase of Open Space	<i>P</i> \$40,000	\$40,000	\$40,000
	\$720,000	<i>I</i> \$25,000	\$23,800	\$22,600
	Lynch Park - Carriage House	<i>P</i> \$20,000	\$15,000	\$15,000
	\$200,000	<i>I</i> \$6,525	\$5,925	\$5,475
	Sub Total of Debt Issued on 1/14/2010	\$1,683,575	\$1,651,725	\$1,620,025
III	Proforma of Authorized/Unissued Debt:			
	(Assumes issuance in 2011 at 4%)			
	High School \$10 million	<i>P</i>	\$400,000	\$400,000
		<i>I</i>	\$400,000	\$384,000
	Fire Quint - \$900,000	<i>P</i>	\$90,000	\$90,000
		<i>I</i>	\$36,000	\$32,400
	Innocenti/McPherson - \$250,000	<i>P</i>	\$25,000	\$25,000
		<i>I</i>	\$10,000	\$9,000
	Measure and List - \$375,000	<i>P</i>	\$62,500	\$62,500
		<i>I</i>	\$15,000	\$12,500
	Vitale Site - \$300,000	<i>P</i>	\$30,000	\$30,000
		<i>I</i>	\$12,000	\$11,400
	Sub Total of Debt to be issued in 2011		\$1,080,500	\$1,056,800
IV	Projected Savings in Forecast			
	Period of Debt Refinancing in FY 10	-\$120,000	-\$70,000	-\$60,000
	TOTAL	\$8,106,029	\$9,154,148	\$8,826,349